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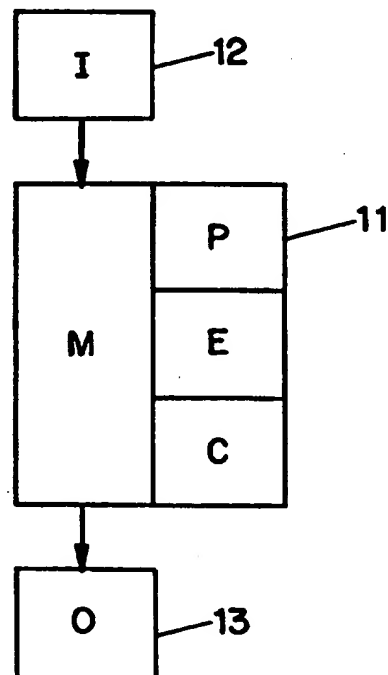
## INTERNATIONAL APPLICATION PUBLISHED UNDER THE PATENT COOPERATION TREATY (PCT)

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(21) International Application Number: <b>PCT/US95/10363</b> (22) International Filing Date: 15 August 1995 (15.08.95)  (71) Applicant: <b>THE TRUSTEES OF COLUMBIA UNIVERSITY IN THE CITY OF NEW YORK [US/US]; 116th Street and Broadway, New York, NY 10027-6699 (US).</b>  (72) Inventors: <b>TRAUB, Joseph, F.; Columbia University, Computer Science Dept., New York, NY 10027-6699 (US). PASKOV, Spassimir; Columbia University, Computer Science Dept., New York, NY 10027-6699 (US).</b>  (74) Agents: <b>TANG, Henry, Y., S. et al.; Brumbaugh, Graves, Donohue &amp; Raymond, 30 Rockefeller Plaza, New York, NY 10112 (US).</b>		(81) Designated States: <b>CA, JP, KR, SG, European patent (AT, BE, CH, DE, DK, ES, FR, GB, GR, IE, IT, LU, MC, NL, PT, SE).</b>  <b>Published</b> <i>With international search report.</i>

(54) Title: **ESTIMATION METHOD AND SYSTEM FOR FINANCIAL SECURITIES TRADING**

## (57) Abstract

In setting the initial offering price of a financial instrument for purposes of securities trading, or in later revaluation as economic factors, such as interest rates, may change, an estimate of the value of the instrument may be represented as a multi-dimensional integral. For evaluation of the integral, numerical integration is preferred with the integrand being sampled at deterministic points having a low-discrepancy property. The technique produces approximate values at significant computational savings and with greater reliability as compared with the Monte-Carlo technique (11).



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DescriptionEstimation Method And System For  
Financial Securities Trading

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Background of the Invention

The invention relates to financial securities trading such as, e.g., trading in stocks, bonds and financial derivative instruments, including futures, options and collateralized mortgage obligations.

In financial securities trading, which includes the initial offer for sale, the value of a security may be estimated, e.g., based on expected future cash flow. Such cash flow may depend on variable interest rates, for example, and these and other relevant variables may be viewed as stochastic variables.

It is well known that the value of a financial security which depends on stochastic variables can be estimated in terms of a multi-dimensional integral. The dimension of such an integral may be very high.

In collateralized mortgage obligations (CMO), for example, instruments or securities variously called tranches, shares, participations, classes or contracts have cash flows which are determined by dividing and distributing the cash flow of an underlying collection or pool of mortgages on a monthly basis according to pre-specified rules. The present value of a tranche can be estimated on the basis of the expected monthly cash flows over the remaining term of the tranche, and

an estimate of the present value of a tranche can be represented as a multi-dimensional integral whose dimension is the number of payment periods of the tranche. For a typical instrument with a 30-year term  
5 and with monthly payments, this dimension is 360.

Usually, such a high-dimensional integral can be evaluated only approximately, by numerical integration. This involves the generation of points in the domain of integration, evaluating or "sampling" the integrand at  
10 the generated points, and combining the resulting integrand values, e.g., by averaging. Well known for numerical integration in securities trading is the so-called Monte Carlo method in which points in the domain of integration are generated at random.

15 With integrands arising in financial securities trading, the computational work in combining the sampled values is negligible as compared with producing the integrand values. Thus, numerical integration methods in securities trading may be compared based on  
20 the number of samples required for obtaining a sufficiently accurate approximation to the integral.

#### Summary Of The Invention

A preferred method for estimating the value of  
25 a financial security involves numerical integration unlike Monte Carlo integration in that an integrand is sampled at deterministic points having a low-discrepancy property. As compared with the Monte Carlo method, significant advantages are realized with  
30 respect to speed, accuracy, and dependability.

#### Brief Description Of The Drawing

Fig. 1 is a schematic of a programmed computer  
35 system in accordance with a preferred embodiment of the invention.

Fig. 2 is a graphic representation of performance data obtained in computer trial runs with an exemplary embodiment of the invention as compared with two Monte Carlo computations.

5 Further included is an Appendix with two computer algorithms in "C" source language, respectively for computing Sobol points and Halton points. For a description of C, see B.W. Kernighan et al., The Programming Language C, Prentice-Hall, 1978.

10

#### Detailed Description Of Preferred Embodiments

Fig. 1 shows a stored-program computer 11 connected to input means 12, e.g., a keyboard, for entering financial securities data, and connected to output means 13, e.g., a visual display device, for displaying an estimated value of the financial security. The computer 11 includes a working memory M, a low-discrepancy deterministic point generator P, an integrand evaluator E, and an integrand-value combiner C.

20 In estimating the value of a multi-dimensional integral in financial securities trading, a multivariate integrand is sampled at points corresponding to a low-discrepancy deterministic sequence of points in the multivariate unit cube as defined below. If the multivariate unit cube is also the domain of integration, the points of the low-discrepancy deterministic sequence can be used as sample points directly. In the case of a more general domain of integration, sample points correspond to points of a low-discrepancy deterministic sequence in the multivariate unit cube via a suitable transformation or mapping.

When a sufficiently large number of sampled values has been computed, an approximation of the integral is obtained by suitably combining the computed values, e.g., by averaging or weighted averaging.

In the  $d$ -dimensional unit cube  $D = [0,1]^d$ , a low-discrepancy deterministic sequence  $z_1, z_2, \dots$  of points in  $D$  can be characterized as follows:

For a point  $t = [t_1, \dots, t_d]$  in  $D$ , define

$$[0, t) = [0, t_1) \times \dots \times [0, t_d),$$

where  $[0, t_i)$  denotes a left-closed, right-open interval, and denote with  $\chi_{[0,t)}(\cdot)$  the characteristic or indicator function of  $[0, t)$ . For points  $z_1, \dots, z_n$  in  $D$ , define

$$R_n(t; z_1, \dots, z_n) = (\sum_{k=1}^n \chi_{[0,t)}(z_k)) / n - t_1 t_2 \dots t_d,$$

and define the discrepancy of  $z_1, \dots, z_n$  as the  $L_\infty$ -norm of the function  $R_n(\cdot; z_1, \dots, z_n)$ , i.e.,

$$\|R_n(\cdot; z_1, \dots, z_n)\|_\infty = \sup_{t \in D} |R_n(t; z_1, \dots, z_n)|.$$

The sequence  $z_1, z_2, \dots$  is said to be a low-

discrepancy deterministic sequence provided

$$\|R_n(\cdot; z_1, \dots, z_n)\|_\infty = O((\log n)^d / n).$$

Low-discrepancy deterministic sequences are described in the published literature; see, e.g., H. Niederreiter, "Random Number Generation and Quasi-Monte Carlo Methods", CBMS-NSF, 63, SIAM, Philadelphia, 1992 and S. Paskov, "Average Case Complexity of Multivariate Integration for Smooth Functions", Journal of Complexity, Vol. 9 (1993), pp. 291-312. Well-known examples of low-discrepancy deterministic sequences are the so-called Hammersley points, Halton points, Sobol points, and hyperbolic-cross points.

For illustration, in the case of Sobol points in a single dimension ( $d=1$ ), a constructive definition may be given as follows: Choose a primitive polynomial

$$P(x) = x^n + a_1 x^{n-1} + \dots + a_{n-1} x + 1$$

(whose coefficients  $a_i$  are either 0 or 1) and define so-called direction numbers  $v_i$ ,  $i > n$  by the following recurrence formula:

$$v_i = a_1 v_{i-1} \oplus a_2 v_{i-2} \oplus \dots \oplus a_{n-1} v_{i-n+1} \oplus v_{i-n} \oplus (v_{i-n} / 2^n),$$

where  $\oplus$  denotes a bit-by-bit "exclusive or" operation.

5

The initial numbers  $v_1 = m_1/2, \dots, v_n = m_n/2^n$  can be chosen freely provided  $m_i$  is odd and  $0 < m_i < 2^i$  for  $i = 1, 2, \dots, n$ .

Using the direction numbers  $v_i$  so defined, now  
5 define the one-dimensional Sobol sequence  $x_1, x_2, \dots$  by

$$x_k = b_1 v_1 \oplus b_2 v_2 \oplus \dots \oplus b_w v_w, \quad k \geq 0$$

where  $k = \sum_{i=0}^{\infty} [k_i] b_i 2^i$  is the binary representation of  $k$ .

10 For higher dimensions ( $d > 1$ ), the first  $d$  primitive polynomials  $P_1, P_2, \dots, P_d$  are used. If  $\{x_k^i\}_{k=1}^{\infty}$  denotes the one-dimensional Sobol sequence generated by the polynomial  $P_i$ , the  $d$ -dimensional Sobol points are defined as  $x_k = (x_k^1, x_k^2,$   
15  $\dots, x_k^d)$ .

While this definition can be implemented as a computer algorithm directly, faster techniques are known which produce these points in a "shuffled" or permuted sequence. In particular, this applies to the  
20 computer algorithm given in the Appendix.

For specificity in the following, a preferred embodiment of the invention is described as applied to a collateralized mortgage obligation known as CMO FN, 89-23. This has thirty-year maturity and consists of  
25 the following tranches:

PAC tranches 23-A, 23-B, 23-C, 23-D, 23-E  
supporting tranches 23-G, 23-H, 23-J  
residual tranche 23-R  
accrual tranche 23-Z

30 The monthly cash flow is divided and distributed according to pre-specified rules which are included in a formal prospectus. Some of the basic rules may be stated as follows:

First from the monthly cash flow, the coupon is  
35 paid to the tranches. The remaining amount, called

Principal Distribution Amount, is used for repayment of the principal. Prior to a fixed date in the future, the Principal Amount will be allocated sequentially to the tranches 23-G, 23-H, 23-J and 23-Z. After that date, the Principal Distribution Amount will be allocated sequentially to the tranches 23-A, 23-B, 23-C, 23-D and 23-E according to a planned schedule. Any excess amount of the Principal Distribution Amount over the planned schedule will be allocated sequentially to the tranches 23-G, 23-H, 23-J and 23-Z. A distribution of principal of the tranche 23-R will be made only after all other tranches have been retired.

In deriving an estimate for the present value of the security at the time of issue, the following notation is used below:

$C$  - the monthly payment on the underlying mortgage pool;

$i_k$  - the projected interest rate in month  $k$ ,  
 $k = 1, 2, \dots, 360$ ;

$w_k$  - the percentage of mortgages prepaying in month  $k$ ;

$a_{360-k+1}$  - the remaining annuity after month  $k$ .

A remaining annuity  $a_k$  can be expressed as to

$$a_k = 1 + v_0 + \dots + v_0^{k-1}, \quad k = 1, 2, \dots, 360,$$

with  $v_0 = 1/(1+i_0)$ , where  $i_0$  is the current monthly interest rate. Thus, after  $k$  months, the remaining amount of principal borrowed is  $C \cdot a_k$ .

It is assumed that the interest rate  $i_k$  can be expressed as

$$i_k = K_0 \exp(\xi_k) i_{k-1},$$

where  $\exp(\cdot)$  denotes exponentiation and where

$\xi_1, \xi_2, \dots, \xi_{360}$  are independent, normally distributed random variables with mean 0 and variance  $\sigma$ , and  $K_0$  is a given constant. For the present example,  $\sigma = 0.0004$  is chosen.



It is assumed further that  $w_k$  as a function of  $i_k$  can be computed as

$$w_k = K_1 + K_2 \arctan (K_3 i_k + K_4),$$

where  $K_1, K_2, K_3, K_4$  are given constants.

- 5 Under these assumptions. the cash flow in month  $k$ ,  $k = 1, 2, \dots, 360$  is

$$C(1-w_1(\xi_1)) \dots (1-w_{k-1}(\xi_1, \dots, \xi_{k-1})) (1-w_k(\xi_1, \dots, \xi_k) + w_k(\xi_1, \dots, \xi_k) a_{360k+1}),$$

where

- 10  $w_k(\xi_1, \dots, \xi_k) = K_1 + K_2 \arctan(K_3 K_0^k i_0 \exp(\xi_1 + \dots + \xi_k) + K_4).$

This cash flow is distributed according to the rules of FN, 89-23. Then, the cash flow for each of the tranches is multiplied by the discount factor

$$v_1(\xi_1) \dots v_k(\xi_1, \dots, \xi_k), \text{ with}$$

- 15  $v_j(\xi_1, \dots, \xi_j) = 1/(1 + K_0^j i_0 \exp(\xi_1 + \dots + \xi_j)), j=1, 2, \dots, 360,$  to find the present value for month  $k$ . Summing of the present values for every month gives the present value  $PV_T$ , for each tranche  $T$ .

The expected or estimated value,

- 20  $E(PV_T) = E(PV_T(\xi_1, \dots, \xi_{360})),$

upon a change of variables is represented by

$$E(PV_T) = \int_D PV_T(y_1(x_1), \dots, y_{360}(x_{360})) dx_1 \dots dx_{360},$$

where

$$x_i = (2\pi\sigma)^{-1/2} \int_{-\infty}^{y_i} \exp(-t^2/(2\sigma)) dt.$$

- 25 Thus, for each tranche  $T$ , a 360-variate integrand has to be integrated over the 360-dimensional unit cube, .

After generating a point

$$(x_1, x_2, \dots, x_{360})$$

- 30 of a low-discrepancy deterministic sequence in the unit cube, the point

$$(y_1, y_2, \dots, y_{360})$$

is computed by finding the value of the inverse normal cumulative distribution function at each  $x_k$ . Then, for

- 35 each tranche  $T$ , the function value

$$FV_T(Y_1, Y_2, \dots, Y_{360})$$

is computed. These are the function values used in numerical integration.

Fig. 2 shows results from trial runs for  
5 CMO FN, 89-23 with a preferred method using Sobol  
points generated by the corresponding computer  
algorithm given in the Appendix, as compared with Monte  
Carlo integration. Two Monte Carlo computations were  
carried out, with different "seeds" or starting values  
10 of a congruential pseudo-random number generator known  
as RAN2; see W. Press et al., Numerical Recipes in C,  
Cambridge University Press, 1992. It is apparent that  
the preferred method reaches a steady value more  
rapidly. In this and other trial runs, with typical  
15 requirements of precision and confidence, a speed-up by  
a factor of 3 to 5 was realized as compared with Monte  
Carlo integration. Much greater speed-up can be  
expected when higher precision or/and higher levels of  
confidence are sought.

20 In a further trial run with CMO FN, 89-23,  
instead of Sobol points, Halton points were used as  
generated by the corresponding computer algorithm given  
in the Appendix. It is felt that Sobol points may be  
preferred over Halton points for integrals of high  
25 dimension. However, this preference may not apply in  
the case of lower-dimensional integrals, e.g., with  
dimension up to 5 or so.

A computation as described may be terminated after  
a predetermined number of function evaluations.  
30 Alternatively, e.g., after every function evaluation or  
after a predetermined incremental number of function  
evaluations, a current approximation may be compared  
with one or several preceding approximations, for  
termination once a suitable condition depending on the  
35 difference between approximations is met. Such ter-  
mination criteria may be called automatic. Automatic

termination is particularly reliable where a sequence of approximations settles down smoothly; see, e.g., the curve in Fig. 2 corresponding to Sobol points.

Advantageously in computing function values, a cluster or network of multiple parallel processors or workstations can be used. This may involve a master or host processor providing points of a low-discrepancy sequence to slave processors and combining function values returned by the slave processors into an approximate value for the integral. Thus, the computation can be speeded up in proportion to the number of processors used.

Advantageous further, in combination with numerical integration as described above, is the use of error reduction techniques analogous to variance reduction in Monte Carlo integration as described, e.g., by M. Kalos et al., Monte Carlo Methods, John Wiley & Sons, 1986. This may involve a change of variables or/and variation reduction, for example.





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05,7,59,65,21,3,113,61,89,45,107, /\*end 7 \*/

1,255,79,147,141,89,173,43,9,25,115,97,19,97,197,101,255,29,203,65,195,177,105,17,47,169,109  
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149,15,213,135,253,191,155,175,63,47,7,23,39, /\*end 8 \*/

1,257,465,439,177,321,181,225,235,103,411,233,59,353,329,463,385,111,475,451,263,19,249,275,  
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1,257,465,439,177,321,181,225,235,103,411,233,59,353,329,463,385,111,475,451,263,19,249,275,  
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369,393,167,333,473,469,101,21,451,229,247,297,403,497,61,361, /\*end 9 \*/

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5, 1223, 1367, 663, 629, 525, 469, 981, 1667, 1587, 1251, 451, 481, 721, 483, 1209, 1457, 415, 1435,
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5, 1223, 1367, 663, 629, 525, 469, 981, 1667, 1587, 1251, 451, 481, 721, 483, 1209, 1457, 415, 1435,
1, 1285, 823, 727, 267, 833, 471, 1601, 1341, 913, 1725, 2021, 1905, 375, 893, 1599, 415, 605, 819, 975, 915, 171
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1, 1285, 823, 727, 267, 833, 471, 1601, 1341, 913, 1725, 2021, 1905, 375, 893, 1599, 415, 605, 819, 975, 915, 171
5, 1223, 1367, 663, 629, 525, 469, 981, 1667, 1587, 1251, 451, 481, 721, 483, 1209, 1457, 415, 1435,
1, 1285, 823, 727, 267, 833, 471, 1601, 1341, 913, 1725, 2021, 1905, 375, 893, 1599, 415, 605, 819, 975, 915, 171
5, 1223, 1367, 663, 629, 525, 469, 981, 1667, 1587, 1251, 451, 481, 721, 483, 1209, 1457, 415, 1435,
/*end 11 */
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2977,
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2977,
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1959, 1929, 2389, 3251, 1149, 243, 3609, 1131, 1701, 143, 1339, 3497, 2499, 1571, 983, 4021, 1625, 3217, 1163,
2977,
1, 3855, 4091, 987, 1839, 4033, 2515, 579, 3863, 977, 3463, 2909, 3379, 1349, 3739, 347, 387, 2881, 2821, 1873,
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2977,
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1959, 1929, 2389, 3251, 1149, 243, 3609, 1131, 1701, 143, 1339, 3497, 2499, 1571, 983, 4021, 1625, 3217, 1163,
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1959, 1929, 2389, 3251, 1149, 243, 3609, 1131, 1701, 143, 1339, 3497, 2499, 1571, 983, 4021, 1625, 3217, 1163,
2977,
1, 3855, 4091, 987, 1839, 4033, 2515, 579, 3863, 977, 3463, 2909, 3379, 1349, 3739, 347, 387, 2881, 2821, 1873,
1959, 1929, 2389, 3251, 1149, 243, 3609, 1131, 1701, 143, 1339, 3497, 2499, 1571, 983, 4021, 1625, 3217, 1163,
2977,
/*end 12 */
```

```
};
if (n < 0) {
    for (j=12; j<=MAXBIT; j++) iv[1+j*MAXDIM]=1; /* Initialize all direction
        numbers for the first
        coordinate to 1 */
    for (j=1, k=0; j<=MAXBIT; j++, k+=MAXDIM) iu[j] = &iv[k];
    for (k=1; k<=MAXDIM; k++) {
        for (j=1; j<=mdeg[k]; j++) iu[j][k] <= (MAXBIT-j);
        for (j=mdeg[k]+1; j<=MAXBIT; j++) {
            iip=ip[k];
            i=iu[j-mdeg[k]][k];
            i^= (i >> mdeg[k]);
            for (l=mdeg[k]-1; l>=1; l--) {
```



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```

    if (ipp & 1) i ^= iv[j-1][k];
    ipp >>= 1;
}
iu[j][k]=i;
}
}
fac=1.0/(1L << MAXBIT);
in=0;
}
else
{
    /* Check if the (n-1)-th number was generated in the previous call
    to sobol. If not, update in and ix */
    if(in!=n-1) {
        unsigned long gray;

        /* Set ix to 0 */
        for (k=1;k<=IMIN(d,MAXDIM);k++) ix[k]=0;
        in=n-1;
        gray=in^(in>>1); /* Find gray code of in */
        for (j=1;j<=MAXBIT;j++) {
            if(gray&1) { /* Only digits which are 1 are used */
                im=(j-1)*MAXDIM;
                for (k=1;k<=IMIN(d,MAXDIM);k++) ix[k] ^= iv[im+k];
            }
            gray>>=1;
        }
        im=in; /* Calculate the next vector in the sequence */
        for (j=1;j<=MAXBIT;j++) { /* Find the rightmost zero bit */
            if (!(im & 1)) break;
            im >>= 1;
        }
        if (j > MAXBIT) perror("MAXBIT too small in sobseq");
        im=(j-1)*MAXDIM;
        for (k=1;k<=IMIN(d,MAXDIM);k++) {
            ix[k] ^= iv[im+k];
            x[k-1]=ix[k]*fac;
        }
        in++;
    }
}
#endif MAXBIT
#endif MAXDIM

```

```

/*****
void halton(int n)

This is the function halton for generating Halton points.
It returns the n-th d-dimensional Halton point. The point is implicitly
returned through the array x. The last two digits of n-1 in base p[j]
are kept in q1[j] and q2[j]. When both digits become p[j]-1, the
radical inverse function is computed again. That way the accumulation
of round-off error is avoided. In practice, there are not any upper bounds
on the values of d and n.

*****/

extern int d; /* actual dimension of the points */
extern int *q1,*q2; /* q1[j] is the last digit of n-1 in base p[j], q2[j] is
the digit before the last one */
extern double *x; /* This will contain the Halton point */
extern int *p; /* the first d prime numbers */
extern int *p_1; /* first d prime numbers minus 1 */
extern double *incr1,*incr2; /* incr1[j] is 1/p[j] and 1/(p[j]*p[j]) */

double find_fi(int p, int n); /* See below */

void halton(int n)
{
    double a;
    int j,mn;
    static int ins_n; /* The default value of ins_n is 0 */

    /* Check if the (n-1)-th number was generated in the previous call
to halton. If not, update q1, q2, and x */

    if(ins_n!=n-1)
    {
        ins_n=n-1;
        for (j=0; j<d; j++)
        {
            q1[j]=ins_n%p[j];
            q2[j]=(ins_n/p[j])%p[j];
            x[j]=find_fi(p[j],ins_n);
        }
        ins_n++;
    }
    for(j=0;j<d;j++)
    {
        if(q1[j]<p_1[j])
        {
            /* It is easy to update when the last digit is less than p[j]-1 */
            q1[j]++;
            x[j]=x[j]+incr1[j];
        }
        else if(q2[j]<p_1[j])
        {
            /* This is the case when the last digit is p[j]-1 and the digit
before the last one is less than p[j]-1 */
            q1[j]=0;
            q2[j]++;
            x[j]=x[j]+incr1[j]+incr2[j]-1.0;
        }
        else
    }
}

```

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```

{
    /* This is the case when the last digit is p[j]-1 and the digit
       before the last one is also p[j]-1 */

    q1[j]=0;
    q2[j]=0;
    nn=n/(p[j]*p[j]);
    a=nn*p[j];
    nn=nn/p[j];
    if (nn) x[j]=(a+find_fi(p[j],nn))*incr2[j]*incr1[j];
    else x[j]=a*incr2[j]*incr1[j];
}
}

/*****
find_fi(int p, int n)

This returns the radical inverse function fi(p,n) at n for the prime p.
*****/

double find_fi(int p, int n)
{
    int p2,nn;
    double s,fi,incr;

    incr=1.0/p;
    p2=p*p;
    nn=n/p2;

    fi=0.0;
    s=incr;
    while (nn > 0)
    {
        fi+= (nn*p)*s;
        nn=nn/p;
        s*=incr;
    }

    /* The two largest components of fi are added later to avoid possible
       loss of precision */
    fi=((n/p*p)+ fi)/ p2;
    fi+=(n*p)/ (double) p;
    return fi;
}

```

Claims

- 1 1. A computer method in financial securities trading,  
2 for producing an approximate value for an estimated  
3 value of a financial security, comprising:  
4 providing the computer with financial security  
5 data;  
6 producing the approximate value by numerically  
7 integrating a multivariate integrand whose multi-  
8 dimensional integral over a domain of integration  
9 represents the estimated value, wherein numerical  
10 integration comprises:  
11 evaluating the integrand at points in the  
12 domain of integration corresponding to points of a  
13 low-discrepancy deterministic sequence, and  
14 combining the integrand values to produce the  
15 approximate value; and  
16 producing the approximate value as an output  
17 for inspection or/and further processing.
- 1 2. The computer method of claim 1, wherein combining  
2 the integrand values comprises averaging.
- 1 3. The computer method of claim 1, wherein the number  
2 of integrand values is predetermined.
- 1 4. The computer method of claim 1, wherein the number  
2 of integrand values is determined automatically.
- 1 5. The computer method of claim 1, further comprising  
2 allocating integrand evaluations among a plurality  
3 of processors.
- 1 6. The computer method of claim 1, further comprising  
2 application of an error reduction technique.

- 1 7. The computer method of claim 6, wherein error  
2 reduction comprises a change of variables.
- 1 8. The computer method of claim 6, wherein error  
2 reduction comprises variation reduction.
- 1 9. The computer method of claim 1, wherein the low-  
2 discrepancy deterministic sequence comprises Sobol  
3 points.
- 1 10. The computer method of claim 1, wherein the low-  
2 discrepancy deterministic sequence comprises Halton  
3 points.
- 1 11. The computer method of claim 1, wherein the low-  
2 discrepancy deterministic sequence comprises  
3 Hammersley points.
- 1 12. The computer method of claim 1, wherein the low-  
2 discrepancy deterministic sequence comprises  
3 hyperbolic-cross points.
- 1 13. The computer method of claim 1, wherein financial  
2 securities data comprise derivative instrument data.
- 1 14. The computer method of claim 1, further comprising  
2 using the approximate value in offering the security  
3 for sale.
- 1 15. The computer method of claim 1, further comprising  
2 using the approximate value in deciding whether to  
3 buy, sell or hold the security.
- 1 16. A computer system for financial securities trading,  
2 for producing an approximate value for an estimated  
3 value of a financial security, comprising:

4 means for providing the computer with financial  
5 security data;  
6 means for producing the approximate value by  
7 numerically integrating a multivariate integrand  
8 whose multi-dimensional integral over a domain of  
9 integration represents the estimated value,  
10 comprising:  
11 means for evaluating the integrand at points in  
12 the domain of integration corresponding to points of  
13 a low-discrepancy deterministic sequence, and  
14 means for combining the integrand values to  
15 produce the approximate value; and  
16 means for producing the approximate value as an  
17 output for inspection or/and further processing.

1 17. The computer system of claim 16, wherein the means  
2 for combining the integrand values comprises  
3 averaging means.

1 18. The computer system of claim 16, wherein the number  
2 of integrand values is predetermined.

1 19. The computer system of claim 16, further comprising  
2 means for automatically determining the number of  
3 integrand values.

1 20. The computer system of claim 16, further comprising  
2 means for allocating integrand evaluations among a  
3 plurality of processors.

1 21. The computer system of claim 16, further comprising  
2 means for applying an error reduction technique.

1 22. The computer system of claim 21, wherein the means  
2 for applying an error reduction technique comprises  
3 means for a change of variables.

- 1 23. The computer system of claim 21, wherein the means  
2 for applying an error reduction technique comprises  
3 means for variation reduction.
- 1 24. The computer system of claim 16, wherein the means  
2 for producing a low-discrepancy deterministic  
3 sequence comprises means for producing Sobol points.
- 1 25. The computer system of claim 16, wherein the means  
2 for producing a low-discrepancy deterministic  
3 sequence comprises means for producing Halton  
4 points.
- 1 26. The computer system of claim 16, wherein the means  
2 for producing a low-discrepancy deterministic  
3 sequence comprises means for producing Hammersley  
4 points.
- 1 27. The computer system of claim 16, wherein the means  
2 for producing a low-discrepancy deterministic  
3 sequence comprises means for producing hyperbolic-  
4 cross points.

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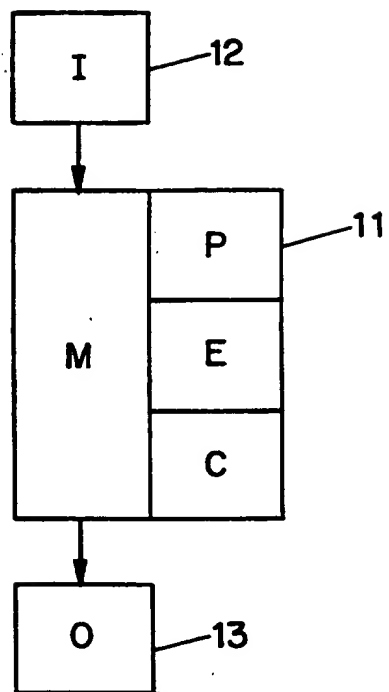


FIG. 1



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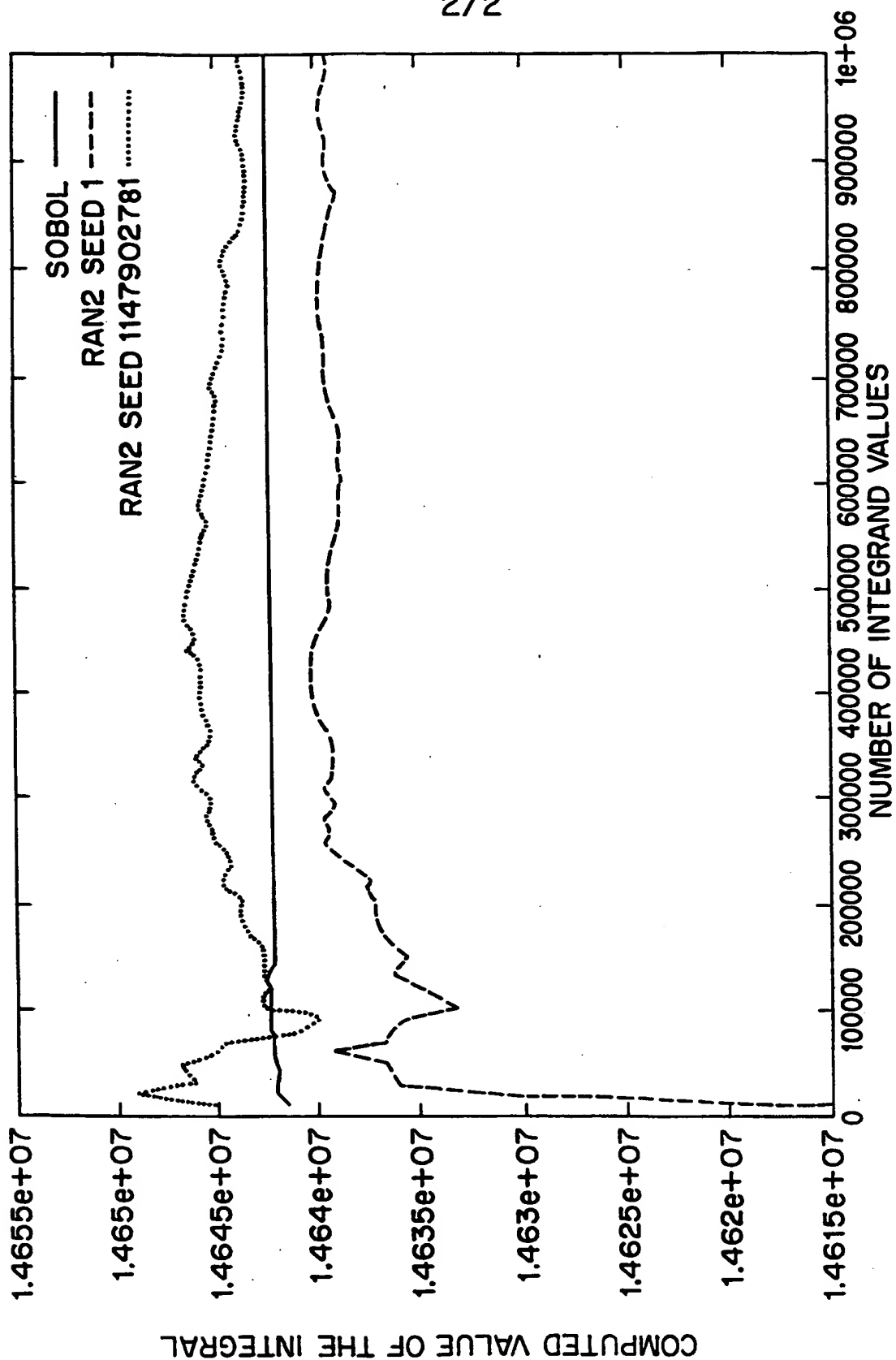


FIG. 2

## INTERNATIONAL SEARCH REPORT

International application No.

PCT/US95/10363

**A. CLASSIFICATION OF SUBJECT MATTER**

IPC(6) : G06F 157:00

US CL : 364/408

According to International Patent Classification (IPC) or to both national classification and IPC

**B. FIELDS SEARCHED**

Minimum documentation searched (classification system followed by classification symbols)

U.S. : 364/408

Documentation searched other than minimum documentation to the extent that such documents are included in the fields searched

Electronic data base consulted during the international search (name of data base and, where practicable, search terms used)

Dialog Database

**C. DOCUMENTS CONSIDERED TO BE RELEVANT**

Category*	Citation of document, with indication, where appropriate, of the relevant passages	Relevant to claim No.
A	Journal of Complexity, 9, 1993, S. H. Paskov, "Average Case Complexity of Multivariate Integration for Smooth Functions", Pages 291-312	12, 17
Y	Science, V 253, N 5018, 26 July 1991, Barry Cipra, "Mix well, then apply: Math meeting in D.C.", p384(2)	2, 3, 17, 18
A	Monte Carlo Methods, M. Kalos et al, "Monte Carlo Evaluation of Finite-Dimensional Integrals", 1986, pages 89-116	1-27
A	"Random Number Generation and Quasi-Monte Carlo Methods", H. Niederreiter, Society for Applied and Industrial Mathematics, 1992, pages 1-45	1-27

☒ Further documents are listed in the continuation of Box C.
 ☐ See patent family annex.

* Special categories of cited documents:	"T" later document published after the international filing date or priority date and not in conflict with the application but cited to understand the principle or theory underlying the invention
"A" document defining the general state of the art which is not considered to be part of particular relevance	"X" document of particular relevance; the claimed invention cannot be considered novel or cannot be considered to involve an inventive step when the document is taken alone
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Date of the actual completion of the international search

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**INTERNATIONAL SEARCH REPORT**

International application No.  
PCT/US95/10363

**C (Continuation). DOCUMENTS CONSIDERED TO BE RELEVANT**

Category*	Citation of document, with indication, where appropriate, of the relevant passages	Relevant to claim No.
Y	Bulletin (New Series) of the American Mathematical Society, Vol. 24, No. 1, January 1991, H. Wozniakowski, "Average Case Complexity of Multivariate Integration", pages 185-194.	1-27
Y	Journal of Complexity 8, 1992, H. Wozniakowski, "Average Case Complexity of Linear Multivariate Problems", pages 373-392	1-27